

**DOCKET NO. 03-0371**

**PUBLIC UTILITIES COMMISSION**

**CONSUMER ADVOCATE'S RESPONSES TO  
KIUC'S INFORMATION REQUESTS ON THE  
CONSUMER ADVOCATE'S WRITTEN DIRECT TESTIMONY**

The responses to the following information requests were prepared by Mr. Herz, who is the sponsor of the responses.

**KIUC/CA-DT-IR-4**

**Ref: CA-T-1: Pg. 71, line 4-22; Pg. 72, lines 1-6**

In CA-T-1, the CA states that "customers leaving the system to install their own DG facilities may impair the cooperative's ability to timely build patronage capita[l]" (page 71, lines 20-22) and further states "It would not be unreasonable for the larger customers to consider on-site DG installation, which ultimately may result in a significant loss of load. This situation could jeopardize the cooperative's ability to continue receiving tax exempt status, which ultimately would negatively impact KIUC's owner/customers" (page 72, lines 2-6).

- a. Would the CA agree that the above demonstrate negative impacts on the installation of DG by the cooperative's member/customers? Please explain.

**RESPONSE:**

Yes, especially under KIUC's current rate structure. The unbundling of KIUC's rates would allow KIUC to be compensated for the T&D and backup generation services provided to customers with customer-sited generation which would address some of the revenue loss that would occur with the existing bundled rate. Since the largest component of the bundled rate is the cost of generation, however, there still remains a concern with the cooperative's ability to build patronage capital and meet debt service obligations as anticipated if a number of large customers elected to install

on-site generation to serve the customer's load. Furthermore, if, a number of large customers elected to install on-site generation to meet their energy needs, thereby eliminating or significantly reducing the revenues that would have been paid to the utility, KIUC's ability to continue to receive a tax exempt status may be jeopardized since the 501C12 exemption from income taxes as a mutual service electric cooperative requires that 85% or more of KIUC's revenues be collected from members of the cooperative.

- b. In connection with the above, please explain whether a member/customer would have less of an incentive to leave KIUC's electric system to install DG as a result of KIUC's cooperative form of ownership.

RESPONSE:

It would appear that under a cooperative, a customer who is also a member of the cooperative has less of an incentive to leave the utility system since the member is eligible to receive patronage capital refunds based on the amounts paid to the utility for electric service.

KIUC/CA-DT-IR-5

**Ref: CA-T-1: p. 25, lines 8-18.**

The testimony discusses the differences in HEI IOU status and KIUC cooperative status and the impact on the Commission's DG considerations.

**Ref: CA-T-1: p. 43, lines 21-24 thru p. 44, lines 1-13**

Discusses the rate impacts of customers installing DG and the need for "unbundling the current rate structure" (43:12).

**Ref: CA-T-1: p. 57, lines 13-14**

States "To effectively deploy DG on each of the islands, the current bundled rate structure of each of the electric utility companies will need to be unbundled."

**Ref: CA-T-1: p. 58, lines 4-16**

Discusses the importance of unbundling existing utility rates.

In the context of KIUC as a utility cooperative owned by its member/customers, how does unbundling of rates benefit or protect those member/customers that do not install DG?

RESPONSE:

The unbundling of the rates allows KIUC to receive compensation for the T&D and backup generation services provided to customers with customer-sited DG. Under KIUC's current bundled rate structure, KIUC will not receive compensation for the T&D and backup generation services provided to customers with customer-sited DG. Thus, unbundling rates protects other member/customers that do not install DG benefit by not requiring them to subsidize the customers with on-site DG facilities by having to pay higher rates to cover the cost of the T&D and generation services provided to the customers with customer-sited DG.

What are the components of unbundled rates and how are they determined?

RESPONSE:

The components of the unbundled rates are:

1. generation reserves used to "standby or "backup" the customer's load served by customer-sited DG (often these reserves are included as part of generation ancillary services);
2. transmission and distribution to deliver the services from the utility's generators to the customer; and
3. generation ancillary services for the load being served by DG including frequency control, voltage support and regulations for the moment-to-moment fluctuations of the customer's DG load.

The manner in which rates could be unbundled is described in the testimony (see CA-T-1, page 60, line 14 through page 61, line 19). The components and determination of unbundled rates for each utility will be developed from the utility's revenue requirements and cost of service analysis in the utility's most recent, or the then current rate case filing. The level of detail needed and the effort made to unbundle rates should be balanced with the information available, the cost of developing additional data, and the magnitude of the DG market and its impact on the utility's revenue recovery and revenue stability.

The unbundled rates should be sufficient to reasonably compensate the utility for the services provided to customers with load served by DG. These services include utility transmission, distribution and generation reserves required to backup the load served by DG, and the ancillary services to maintain frequency control, appropriate voltage levels and regulation to follow moment-to-moment changes in the customer's DG load even when the customer-sited DG is operating.

To accomplish the above, each utility must identify the services it provides to customers with load served by DG and determine the cost incurred by the utility to provide such services. The unbundled rates developed for each utility would then be designed to recover the utility's costs of serving the customer's DG load in order to avoid having the utility's other customers subsidize the customers' DG load. A description of the components of unbundled rates and how they are determined for mainland utilities regulated by the FERC is provided in CA-107. See also the response to HECO/CA-DT-IR-4.